



# FISCALNOTES

A Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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BY CELESTE ANSLEY

**F**or decades, Mexico's maquiladora industry has provided an important economic boost on both sides of the border. Today, foreign competition is forcing the industry to evolve, moving maquiladoras from simple piecework assembly into the production of sophisticated technology and other high-value goods, creating higher-paying jobs — and generating more business and employment for Texas Border cities.

The maquiladora industry began in the mid-1960s, as a way to alleviate persistent unemployment in northern Mexico. In its original incarnation, the program allowed American and other companies to set up manufacturing facilities in Mexico — and to import the machines and materials needed for their operations duty-free — in exchange for employing Mexican nationals.

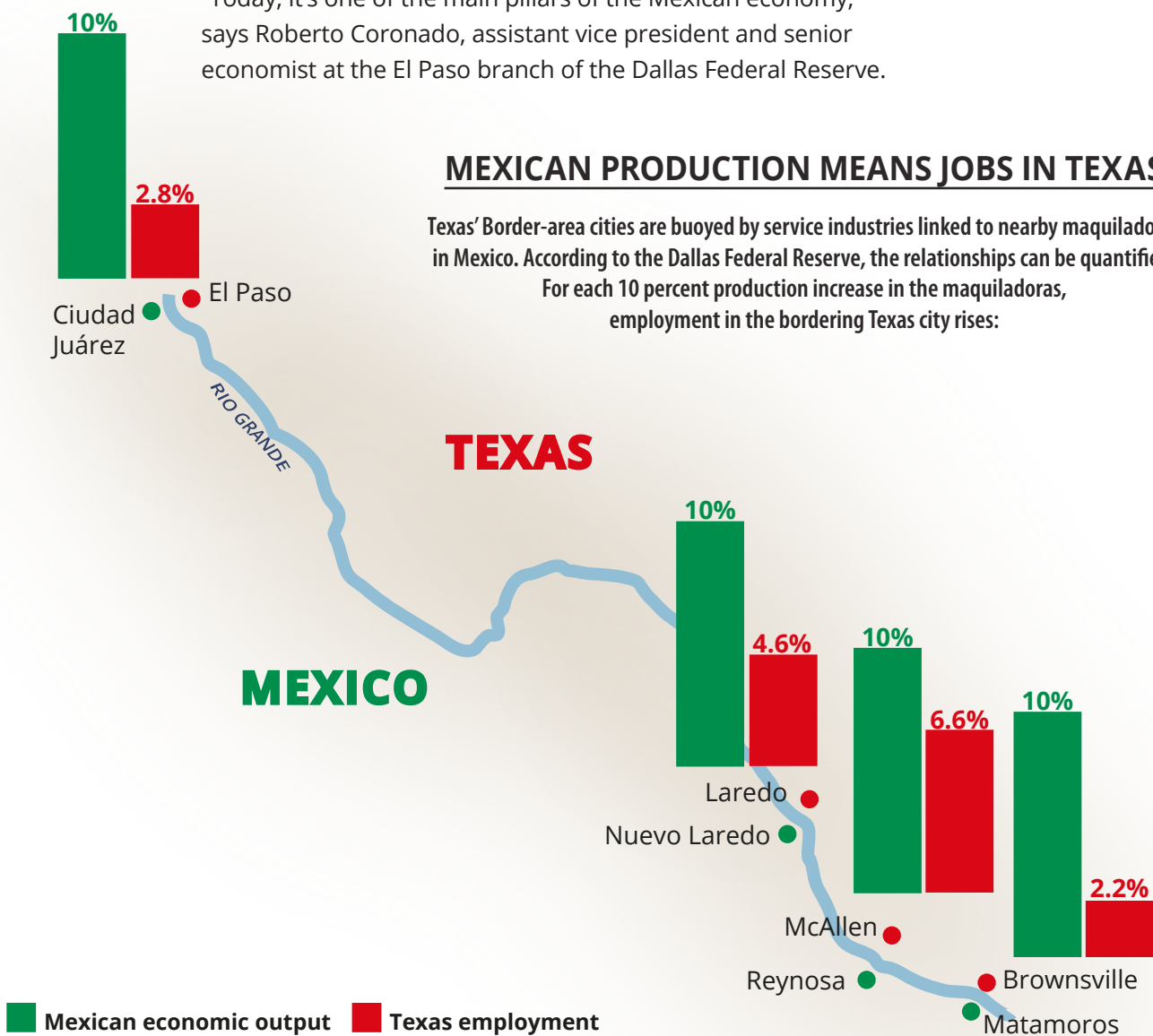
Companies were eager to participate due to the tax breaks and inexpensive labor involved. The industry thrived.

"Today, it's one of the main pillars of the Mexican economy," says Roberto Coronado, assistant vice president and senior economist at the El Paso branch of the Dallas Federal Reserve.

## MEXICAN PRODUCTION MEANS JOBS IN TEXAS

Texas' Border-area cities are buoyed by service industries linked to nearby maquiladoras in Mexico. According to the Dallas Federal Reserve, the relationships can be quantified.

For each 10 percent production increase in the maquiladoras, employment in the bordering Texas city rises:



### The Move to Mexico

Beginning in the late 1980s, the companies who provide parts and supplies to the manufacturing facilities began setting up their own facilities in Mexico, to be closer to the maquiladoras they serve.

“That drove a lot of economic activity in the late ‘80s and early ‘90s,” Coronado says.

As maquiladora-related activity has grown, it has generated many related jobs on the Texas side of the border — in transportation, accounting, human resources, legal firms, real estate, insurance, finance and more — creating a broad business ecosystem.

“Most of the manufacturing takes place in Mexico, but Texas Border cities such as McAllen, El Paso, Brownsville and Laredo have grown significant service-based economies,” Coronado says.

This service-industry growth has become extremely important in Texas Border cities, and ties them more tightly to their cross-border counterparts. According to the Dallas Federal Reserve, for example, McAllen’s job count rises by 6.6 percent for each 10 percent production increase in Reynosa. El Paso employment rises by 2.8 percent for a similar increase in production in Ciudad Juárez. Equivalent figures for Laredo and Brownsville are 4.6 percent and 2.2 percent, respectively.

Today, the transportation, personal service and business service sectors are the fastest-growing sectors in Texas Border cities, and the influx of jobs has led to significant increases in per capita income.

“The gap that has always existed between U.S. and Border per capita income levels has been closing up,” Coronado says. In 2010, for instance, El Paso’s per capita income rose to \$28,365, 71 percent of the U.S. level — reflecting a considerably narrower gap than 2000’s 62 percent.

“There’s still a gap, but we see that gap basically being closed, predominately by the growth of the service side of the economy that supports cross-border trade and maquiladoras,” Coronado says.

### Overseas Competition

One of the biggest challenges maquiladoras face is intense global competition, particularly since China joined the World Trade Organization in 2001. Coronado says that this event “sent a shock” to maquiladoras, which soon found themselves competing with even lower-wage destinations in Asia.

As the decade wore on, many companies moved their manufacturing from Mexico to China due to the price differential, particularly those involved in low-skill manufacturing such as apparel, toys and leather goods.

Since then, however, China has undergone significant economic changes. Ironically, its unprecedented success has reduced its attractiveness as a site for manufacturing.

“The wage advantages are not there anymore,” says Dr. Leigh Boske, professor of economics at the University of Texas at Austin, noting that rising wages and the growth of China’s middle class are persuading some U.S. and foreign companies to leave.

Mexico, meanwhile, has made itself more appealing to such companies through trade agreements with the U.S. and Middle Eastern countries and an improved transportation infrastructure.

Coronado says he only sees the global competition growing more intense.

“The [maquiladora] industry has to stay on top of the game to make sure it remains competitive and plays a significant role in the global manufacturing arena,” he says.

### Maquiladoras Evolve

As some low-skill manufacturers left Mexico, the remaining maquiladoras began producing more complex products.

“In the beginning, in the 1960s and 1970s, it was very labor-



“The gap that has always existed between U.S. and Border per capita income levels has been closing up.”

**ROBERTO CORONADO,**  
assistant vice president and  
senior economist,  
El Paso branch of  
the Dallas Federal Reserve

intensive,” Coronado says. “Today it is more capital intensive, and more goes into the research and design and technical side.”

Modern maquiladoras now manufacture auto parts, computers and servers, televisions, refrigerators, mobile devices and medical instruments. Delphi, for example, has a technical center in Juarez that designs and manufactures automotive components such as brakes.

In the last 10 years, the number of trucks importing goods into the U.S. has remained relatively stable, but the value of those goods is two to three times higher than before.

“That tells you that instead of sending back blue jeans, the maquiladoras are sending back auto parts, computers and servers,” Coronado says.

To manufacture these more technical items, the workforce has had to evolve as well — and it has. Today, “U.S. firms are finding a skilled labor force in Mexico,” Boske says.



For an in-depth look at the Border economy, visit the [Dallas Federal Reserve](#).